SaskPower International

A Subsidiary of SaskPower

2003 Financial Statements

Report of Management

The consolidated financial statements of SaskPower International Inc. (SaskPower International) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of consolidated financial statements necessarily involves the use of estimates which have been made using management's best judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to February 6, 2004.

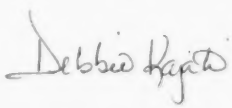
Management maintains appropriate systems of internal control, including policies and procedures which provide reasonable assurance that the Corporation's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable and accurate and that transactions are executed in accordance with management's authorization. An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Board of Directors.

The consolidated financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and sets forth their opinion.

The Board of Directors, through the Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists entirely of outside directors. At regular meetings, the Committee reviews audit, internal control, and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The consolidated financial statements and the external auditors' report have been reviewed by the Audit and Finance Committee and have been approved by the Board of Directors. The internal and external auditors have full and open access to the Audit and Finance Committee, with and without the presence of management.

On behalf of Management,

David Hughes
President and Chief Executive Officer
February 6, 2004



Debbie Kajati
Manager, Finance & Administration

Auditors' Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of SaskPower International Inc. as at December 31, 2003, and the consolidated statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 6, 2004

Consolidated Statement of Income and Deficit

(in thousands)

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For the year ended December 31	2003	2002
Revenue		
Electric sales	**$15,871**	$ –
Flyash sales	**3,390**	2,423
Consulting and contract services	**593**	694
Other	**5**	1
Total revenue	**19,859**	3,118
Expense		
Cost of sales – flyash	**2,092**	1,475
Cost of sales – consulting and contract services	**555**	656
Operating, maintenance and administration	**4,906**	1,307
Depreciation	**4,310**	–
Saskatchewan capital tax	**631**	760
Interest	**6,985**	(73)
Total expense	**19,479**	4,125
Income (loss) before equity investment income	**380**	(1,007)
Equity investment income	**1,579**	–
Net income (loss)	**1,959**	(1,007)
Deficit, beginning of year	**(4,947)**	(3,940)
Deficit, end of year	**$(2,988)**	$(4,947)

See accompanying notes

Consolidated Statement of Financial Position
(in thousands)

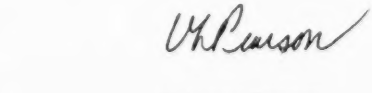
As at December 31	2003	2002
Assets		
Current assets		
Cash (Note 10)	**$ 6,880**	$ 5,142
Accounts receivable	**2,020**	607
Other	**341**	71
	9,241	5,820
Property, plant and equipment (Note 3)		
Property, plant and equipment	**134,441**	2
Less: Accumulated depreciation	**4,310**	–
	130,131	2
Construction in progress	**520**	127,767
	130,651	127,769
Other assets		
Debt issue costs	**2,121**	2,218
Long-term investment (Note 4)	**25,444**	21,936
	27,565	24,154
Total assets	**$167,457**	$157,743
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 3,328**	$ 6,733
Other current liabilities (Note 5)	**–**	704
Current portion of non-recourse long-term debt (Note 6)	**1,900**	1,162
	5,228	8,599
Non-recourse long-term debt (Note 6)	**95,100**	95,838
Total liabilities	**100,328**	104,437
Equity		
Share capital (Note 8)	**70,117**	58,253
Deficit	**(2,988)**	(4,947)
Total equity	**67,129**	53,306
Total liabilities and equity	**$167,457**	$157,743

Commitments (Note 13)

See accompanying notes

On behalf of the Board:

Patricia A.G. Quaroni
Acting Chair



V. Lynne Pearson
Director

Consolidated Statement of Cash Flows
(in thousands)

For the year ended December 31	2003	2002
Operating activities		
Net income (loss)	**$ 1,959**	$ (1,007)
Non-cash items included in income		
Amortization of debt issue costs	**97**	–
Depreciation	**4,310**	–
Equity investment income	**(1,579)**	–
Net change in non-cash working capital (Note 9)	**(16)**	110
Cash provided by (used in) operating activities	**4,771**	(897)
Investing activities		
Property, plant and equipment	**(7,192)**	(51,195)
Net change in non-cash working capital (Note 9)	**(5,072)**	(3,761)
Investment in MRM Cogeneration Station	**(1,929)**	(7,781)
Cash used in investing activities	**(14,193)**	(62,737)
Financing activities		
(Repayment) proceeds of other current liabilities	**(704)**	704
Issue of common shares (Note 8)	**11,864**	28,557
Issue of non-recourse long-term debt	**–**	6,000
Debt issue costs	**–**	(91)
Cash provided by financing activities	**11,160**	35,170
Increase (decrease) in cash	**1,738**	(28,464)
Cash, beginning of year	**5,142**	33,606
Cash, end of year	**$ 6,880**	$ 5,142
Supplemental information:		
Cash paid for interest	**$ 7,273**	$ 6,590
Cash paid for taxes	**876**	1,288

See accompanying notes

Notes to the Consolidated Financial Statements

As at December 31, 2003

1. Status of the Corporation

SaskPower International Inc. (the "Corporation"), a wholly-owned subsidiary of Saskatchewan Power Corporation ("SaskPower"), was incorporated pursuant to *The Business Corporations Act (Saskatchewan)* effective September 15, 1994, and was registered in the Province of Alberta on September 10, 1999. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of SaskPower.

The Corporation contributes to the long-term success of SaskPower by diversifying its revenue and asset base and achieving a return on investment capital by investing in power projects, marketing SaskPower's expertise and selling flyash. As a subsidiary of a provincial Crown corporation, the Corporation is not subject to federal income tax, provincial income tax or federal large corporations tax.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates which may impact the actual results reported in future periods.

The following accounting policies are considered significant:

a) Joint Ventures

The Corporation accounts for its joint venture interests using the proportionate consolidation method.

b) Long-Term Investment

The Corporation accounts for investments over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's proportionate share of post acquisition earnings of the investment.

c) Foreign Currency Translation

Revenues and expenditures resulting from transactions in foreign currencies are translated to Canadian dollars at the exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate in effect on the balance sheet date. Any resulting foreign currency translation gains and losses are included in the consolidated statement of income and deficit in the current period.

d) Property, Plant and Equipment

Property, plant and equipment is recorded at cost and includes material, direct labour, overhead costs and interest costs incurred during construction.

Assets under construction are recorded as construction in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. The estimated service life of cogeneration assets is 30 years.

Effective 2004, the Corporation will be adopting new standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, Asset Retirement Obligations.

e) Debt Issue Costs

Issue costs relating to non-recourse long-term debt are amortized on a straight-line basis over the term of the respective debt and are included in other assets.

f) Revenue Recognition

The Corporation uses the percentage of completion method to recognize revenue from long-term consulting and contract services. Other consulting and contract service revenue is recognized when services are rendered. Electric and flyash sales revenue is recognized upon delivery to the customer.

g) Employees' Future Benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income. Defined benefit pension plan benefits are provided by SaskPower to eligible employees.

The Corporation provides defined contribution and defined benefit severance plans for substantially all employees. The Corporation's obligations are limited to making regular contributions to SaskPower in respect of severance plan benefits.

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. The Corporation's current period expense is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

3. Property, Plant and Equipment (in thousands)

	2003	2002
Cogeneration plant (Cory Cogeneration Station)	**$134,441**	$ –
Other	**–**	2
Accumulated depreciation	**(4,310)**	–
Construction in progress	**520**	127,767
Net book value	**$130,651**	$127,769

Construction in progress in 2003 pertains to a 150-MW Saskatchewan Wind Power Project which, according to the terms of a Memorandum of Understanding, is intended to be constructed as a joint venture with ATCO Power Canada Ltd. Construction in progress in the prior year pertains to the construction of Cory Cogeneration Station. Having commenced commercial operations in 2003, the asset is transferred to property, plant and equipment.

To date, interest costs capitalized are $10,697 ($10,400 in 2002).

4. Long-Term Investment (in thousands)

In 2001, the Corporation acquired an ownership interest in the MRM Cogeneration Station. The 170-MW natural gas-fired cogeneration plant is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The cogeneration plant commenced commercial operations in January 2003.

Ownership interests in the MRM Cogeneration Station are as follows:

ATCO Power Canada Ltd.	56%
SaskPower International Inc.	30%
ATCO Resources Ltd.	14%

Certain accounting policies used in the preparation of the financial statements of MRM Cogeneration Station differ from those used in the Corporation, and therefore adjustments have been made to the reported income of the investee to maintain reporting consistency.

	2003	2002
Equity investment, beginning of the year	**$21,936**	$14,155
Equity advances	**1,929**	7,781
Equity investment income	**1,579**	–
Equity investment, end of year	**$25,444**	$21,936

5. Other Current Liabilities (in thousands)

	2003	2002
Due to ATCO Power Canada Ltd., repayable within 180 days at prime rate plus a margin of 2%	**$ –**	$704

6. Non-Recourse Long-Term Debt (in thousands)

Debentures payable are based on the following terms and rates:

	2003	2002
Notes at 7.586%, repayable in quarterly payments commencing on March 31, 2004, and ending December 31, 2025.	**$48,500**	$48,500
Notes at 7.601%, repayable in quarterly payments commencing on September 30, 2004, and ending June 30, 2026.	**42,500**	42,500
Term loan based on Banker's Acceptance rates plus a margin of 1.125%, repayable in quarterly payments commencing on March 31, 2004, and ending December 31, 2011	**6,000**	6,000
	$97,000	$97,000
Less current portion of non-recourse long-term debt	**1,900**	1,162
Non-recourse long-term debt	**$95,100**	$95,838

These debentures are issued in the name of Cory Cogeneration Funding Corporation. In 2001, debentures in the amount of $91 million were issued. In 2002, the Cost Overrun Facility was fully drawn up to the value of $6 million. In addition, $5 million is available under an Operating Facility.

The notes and term loan are secured by a debenture on each Owners' ownership interest in the Project's assets, an assignment of the Project's bank accounts and an assignment of all the Project Agreements.

Maturities (in thousands)

As at December 31, 2003, scheduled debt retirement requirements for the next five years are as follows:

	2004	**2005**	**2006**	**2007**	**2008**
Non-recourse long-term debt	$1,900	$2,480	$2,780	$3,080	$3,380

7. Financial Risk Management

By virtue of its operations, the Corporation is exposed to changes in interest rates. Effective March 31, 2003, a floating to fixed rate swap was used to reduce interest rate exposure on the Cost Overrun Facility and is carried at nil book value.

Financial Instruments (in thousands)

The fair value of the Corporation's financial instruments reflect market estimates of the amount that the Corporation would pay to terminate contracts at the end of the year. They are not a result of market transactions. Changes in assumptions, economic conditions and other factors could cause significant changes in the fair value estimates.

The following summarizes the fair value of the Corporation's financial instruments at year-end:

As at December 31	**2003**		2002		
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Repricing or Maturity Date
Non-recourse long-term debt	**$97,000**	**$104,646**	$97,000	$100,769	2011-2026
Interest rate swap	**Nil**	**259**	Nil	246	2011

Fair values are determined as follows:

(a) Non-recourse long-term debt instruments are valued at year-end market prices for similar instruments.

(b) Interest rate swap is valued at closing year-end market rates.

The carrying values of all other financial instruments including cash, accounts receivable, accounts payable, accrued liabilities, and other liabilities approximate fair value due to the short period to maturity.

8. Share Capital (in thousands)

	#	**2003**	#	2002
Authorized				
Unlimited Class A non-cumulative, voting common shares				
Issued				
Class A				
Issued and outstanding, beginning of year	**58,253**	**$58,253**	29,696	$29,696
Issued during the year for cash	**11,864**	**11,864**	28,557	28,557
Issued and outstanding, end of year	**70,117**	**$70,117**	58,253	$58,253

All shares are held by the parent corporation, SaskPower.

9. Net Change in Non-Cash Working Capital (in thousands)

	2003	2002
Operating activities		
Accounts receivable	**$ (1,219)**	$ (450)
Other current assets	**(312)**	(10)
Accounts payable and accrued liabilities	**1,515**	570
	$ (16)	$ 110
Investing activities		
Accounts receivable	**$ (194)**	$ 394
Other current assets	**42**	(42)
Accounts payable and accrued liabilities	**(4,920)**	(4,113)
	$ (5,072)	$ (3,761)

10. Joint Ventures (in thousands)

(a) In 2000, the Corporation entered into agreements for a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. to construct a 228-megawatt natural gas-fired cogeneration plant (the "Cory Cogeneration Station") near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation ("CCFC"). CCFC was incorporated pursuant to *The Business Corporations Act (Saskatchewan)* effective November 19, 1999, and was registered with the Province of Alberta on December 18, 2000.

CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. ("the Owners") to borrow long-term, non-recourse debt to finance the Cory Cogeneration Station. CCFC will act as agents for the Owners, receiving revenues, disbursing costs, including debt service and distributing proceeds to the Owners.

(c) The Corporation holds a 14% interest in Canadian Power Consultants ("CPC"). CPC was formed in 2002, with AMEC E&C Services Limited and Acres International Limited, for the purpose of providing services under a consulting contract with Canadian International Development Agency ("CIDA").

(d) The Corporation's interest in joint ventures for 2003 is summarized below:

	2003	2002
Statement of income		
Revenue	**$ 15,792**	$ 63
Operating, maintenance and administration	**(3,629)**	(59)
Depreciation	**(4,289)**	–
Interest	**(6,966)**	–
Income from joint ventures	**$ 908**	$ 4
Statement of financial position		
Current assets	**$ 7,719**	$ 4,454
Property, plant and equipment	**130,152**	127,767
Debt issue costs	**2,121**	2,218
Current liabilities	**(3,930)**	(6,122)
Non-recourse long-term debt	**(95,100)**	(95,838)
Investment in joint ventures	**$ 40,962**	$ 32,479
Statement of cash flows		
Operating activities	**$ 5,493**	$ 9
Investing activities	**(11,746)**	(54,956)
Financing activities	**7,574**	38,081
Increase (decrease) in cash	**$ 1,321**	$ (16,866)

Current assets include cash of $5,893 ($4,572 in 2002), which is only available for use within the joint ventures.

11. Related Party Transactions (in thousands)

Included in these financial statements are transactions with joint ventures and various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2003	2002
Accounts receivable	**$ 1,610**	$ 4
Construction in progress	**86**	–
Accounts payable and accrued liabilities	**622**	739
Revenue – electric sales	**15,871**	–
– consulting and contract services	**320**	508
Cost of sales	**1,319**	1,324
Operating, maintenance and administration	**147**	162

As per Project Agreements, gas is supplied at no cost by SaskPower in return for power generated. No amounts in respect of this supply have been recorded in these financial statements.

SaskPower provides certain management services to the Corporation for no consideration.

12. Employees' Future Benefits (in thousands)

Included in these financial statements is $159 ($187 in 2002) relating to employees' future benefits expense.

13. Commitments (in thousands)

Due to the complexity and nature of SaskPower International's operations, various legal matters are pending. The Corporation has issued a promissory note in the amount of $2,737 as acceptable credit support for project lenders in respect of litigation relating to contractor claims for Cory Cogeneration Station. In the opinion of management these matters will not have a material effect on SaskPower International's consolidated financial position or results of operations.

The Corporation has provided a $42 letter of credit to support its obligations under the contract with CIDA through its joint venture, Canadian Power Consultants.

14. Comparative Figures

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.